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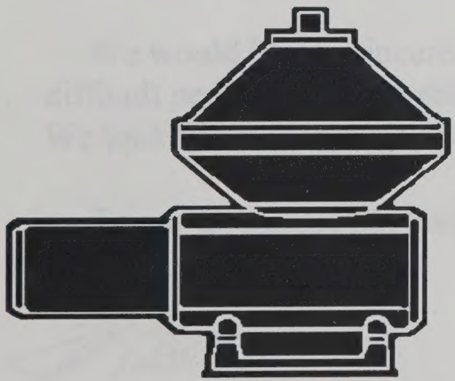
Appulse Corporation

Annual Report to the Shareholders

For the Year Ended
December 31, 2004



CENTRIFUGES UNLIMITED INC.

Rolyn Oilfield Services A CUI Company

Report to Shareholders

While 2004 was a difficult year from a financial perspective, revenues from our Centrifuges division increased by 26% over the previous period, setting a new record for the Company. Overhead increases and pressure on certain margins, however, yielded a loss from operations before the divestiture noted in the following paragraph. As outlined under the MD&A summary later in this report, overhead increases included costs of a development program related to slop oil processing, increased marketing and structure costs, and costs associated with a public company. We believe that these current expenditures will prove beneficial to the Company in the future.

Late in 2004, the Board of Directors concluded that further involvement in the water purification technology under license would not be in the best interests of the Corporation or its shareholders. The technology license was, therefore, not renewed and all operations were discontinued. Product development and operations problems in this division were substantial. In addition, continuing losses and working capital demands strained the Corporation's resources. Under terms of a March, 2005 agreement, however, we recovered the 625,000 common shares which were originally issued related to the purchase of equipment, inventories and the technology license. The equipment and inventories were sold to a company controlled by the original holder of the technology. The transaction is reviewed further in the MD&A summary and notes to the financial statements. While our investment was disappointing, we look forward to a refocus of the Corporation's resources.

Market growth should continue through further expansion of applications and geographic coverage. In fact, our centrifuge machine order backlog for 2005 exceeds $1,300,000 as compared to total machine sales during 2004 of $1,561,000. First quarter revenues in 2005 will show a significant increase over the first quarter of 2004. We are pursuing new strategies regarding our service business and expect a related continued growth in parts sales. An expanded sales team will further enhance our share of the centrifuge market. We are also currently investigating acquisition opportunities that would complement our centrifuges business.

At the upcoming annual meeting all of the Corporation's current directors will stand for re-election. We appreciate their dedication of time and their significant guidance.

We would like to sincerely thank our employees for their dedication through a difficult period. They are responsible for the strong reputation we enjoy in our industry. We look forward to their continued input and involvement in the Company's success.

To our Shareholders, thank you for your support and continued interest in Appulse.

Doug A. Baird
President,
Appulse Corporation

Robert D. Richards,
President,
Centrifuges Unlimited Inc.

While 2004 was a difficult year from a financial perspective, revenues from our Centrifuge division increased by 26% over the previous period, setting a new record for the Company. The fixed overhead and pressure on certain margins, however, resulted in a loss from operations before tax [illegible] noted in the following paragraph. As outlined under the MD&A summary later in this report, overhead increases included costs of a development program related to [illegible] processing, increased marketing and [illegible] costs, and costs associated with a public company. We believe that these current expenditures will prove beneficial to the Company in the future.

Late in 2004, the Board of Directors concluded that further involvement in the water purification technology under license would not be in the best interests of the Corporation or its shareholders. The technology license was, therefore, not renewed and all operations were discontinued. Product development and operating provisions in this division were substantial. In addition, continuing losses and working capital demands strained the Corporation's resources. In consideration of a March [illegible], 2005 agreement, however, we recovered the 625,000 common shares which were originally issued related to the purchase of equipment, inventories and the technology license. The equipment and inventories were sold to a company controlled by the original holder of the technology. The transaction is reviewed further in the MD&A summary and notes to the financial statements. While our investment was disappointing, we look forward to a reduction of the Corporation's expenses.

Market growth should continue through further expansion of applications and geographic coverage. In fact, our centrifuge machine order backlog for 2005 exceeds \$1,500,000 as compared to total machine sales during 2004 of \$1,[illegible],000. First quarter revenues in 2005 will show a significant increase over the first quarter of 2004. We are pursuing new strategies regarding our service business and expect additional continued growth in parts sales. An expanded sales team will further enhance our share of the centrifuge market. We are also currently investigating acquisition opportunities that would complement our centrifuge business.

At the operating level, all team members of the Corporation's operating division are well trained for service work. We appreciate their dedication of time and their high level of guidance.

We would like to sincerely thank our employees for their dedication throughout a difficult period. They are responsible for the strong reputation we enjoy in our industry. We look forward to their continued input and loyal support to the Company's success.

To our Shareholders, thank you for your support and continued interest in Apogee.

Doug A. [illegible]
President
Apogee Corporation

Robert [illegible]
President
Centrifuge [illegible] Inc.

Financial Results

The consolidated financial results, before discontinued operations, for the year ended December 31, 2004 include the activities of Appulse Corporation ("Appulse or the Corporation "), Centrifuges Unlimited Inc. ("Centrifuges") and the subsidiaries of Centrifuges. The net operating results of the discontinued business division, Naturezo$_3$ne Technologies Inc. ("Naturezo$_3$ne") are reflected separately as noted in a following paragraph. The comparative figures for the year ended December 31, 2003 reflect the activities of Centrifuges and its subsidiaries from January 1, 2003 to December 31, 2003 and Appulse from August 27, 2003 to December 31, 2003. The acquisition of Centrifuges (August 27, 2003) was accounted for as a reverse takeover.

Pursuant to regulation, the following tables summarize specific annual financial information for the past three years, and quarterly information commencing with the last quarter of 2003, being the first quarter following the acquisition of Centrifuges noted in the previous paragraph:

Selected Annual Information:

(thousands except per share figures)

			2004	2003 (restated)	2002
Revenues		$	4,359	3,447	2,943
Income (loss) before discontinued operations		$	(243)	29	115
Per share	- basic		(.02)	.01	.02
	- diluted		(.02)	.01	.02
Net income (loss)		$	(893)	29	115
Per share	- basic		(.09)	.01	.02
	- diluted		(.09)	.01	.02
Total assets		$	4,372	3,966	2,662
Total long-term liabilities		$	469	108	67

Summary of Quarterly Results:

(thousands except per share figures)

			4th Quarter of 2004 (note 3)	3rd Quarter of 2004	2nd Quarter of 2004	1st Quarter of 2004	4th Quarter of 2003	3rd Quarter of 2003
Revenues		$	888	1,402	1,017	1,052	901	968
Income (loss) before discontinued operations		$	107	(162)	(149)	(39)	(30)	(102)
Per share	- basic		.01	(.02)	(.01)	(.01)	(.00)	(.02)
	- diluted		.01	(.02)	(.01)	(.01)	(.00)	(.02)
Net income (loss)		$	(542)	(162)	(149)	(39)	(30)	(102)
Per share	- basic		(.05)	(.02)	(.01)	(.01)	(.00)	(.02)
	- diluted		(.05)	(.02)	(.01)	(.01)	(.00)	(.02)

Notes to financial summaries:

1- financial information has been prepared in accordance with Canadian GAAP.
2- no dividends have been declared on the Corporation's shares.
3- quarterly information reflects previously issued results. No adjustment has been made to previous quarters to reflect the discontinuance of an operating division in the last quarter of 2004, as discussed in a following paragraph.

A review of period comparisons and management's outlook is provided in the following paragraphs.

Forward Looking

Certain statements in this report are forward looking. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by the Corporation at the time of preparation, may prove to be incorrect. Actual results achieved during the forecast period will vary from information provided herein as a result of numerous known and unknown risks and uncertainties and other factors, many of which are beyond the control of the Corporation. There is no representation by the Corporation that actual results achieved during the forecast period will be the same in whole or in part as forecast.

Discontinued Operation

Under terms of a prior agreement, certain equipment and inventories were purchased related to a water purification technology for consideration which included 375,000 Common Shares of the Corporation and 375,000 Common Share Purchase warrants.

In addition, 250,000 Common Shares were issued as total consideration for a one-year license related to the technology. The Corporation had an option to renew that technology license for a further three years. The subsidiary operated under the name of Naturezo$_3$ne.

Following an evaluation of operating and market constraints, continuing losses and working capital requirements, management and the Board of Directors concluded that it would not be in the best interest of the Corporation or its Shareholders to renew the technology license. Consequently, all activities related to the water purification technology were discontinued.

Pursuant to an agreement which closed March 24, 2005, equipment and inventories related to the water purification systems were sold to a company related to the holder of the technology, in exchange for the return of the 625,000 shares originally paid for assets and a one-year technology license. These shares were returned to treasury for cancellation and the warrants were cancelled.

Losses from the subsidiary, including the write-down of goodwill previously recorded, are reflected on the income statement under Discontinued Operations. The equipment and inventory sold in March of 2005 are reflected under current assets on the balance sheet as assets held for sale.

In addition to the negative effect on the Corporation's income statement, Naturezo$_3$ne operations significantly taxed our cash and working capital positions during the period. A majority of funds raised through the Private Placement, which closed in early 2004, were used to support the activities of Naturezo$_3$ne.

This divestiture will support our efforts to focus our attention on growth in our principal business activities.

Revenue / Cost of Sales

Revenues for the three months ended December 31, 2004 were $ 888,000 compared to $ 901,000 for the corresponding three-month period of 2003. Revenues for the year ended December 31, 2004 were $4,359,000 compared to $3,446,000 for the corresponding period of 2003. This increase was due to an increase in service, parts and machine sales of Centrifuges, reflecting an increased emphasis on marketing with expanded staff and growth of our new market in eastern Canada. Machine sale revenues reflect an emphasis to expand our market base by industry type and geographic location.

Total consolidated margins were lower in 2004 reflecting the specialized nature of our product lines, the mix of our revenue base, the competitive nature of our expanding markets in eastern Canada, and the start-up cost of addressing new applications. Cost of sales includes additional fixed costs related to increased personnel at Centrifuges' locations, and facilities costs in Ontario. These additional fixed costs, while resulting in lower overall gross margins for the period compared to the prior year, are expected to provide the base, in Calgary and Ontario, to realize the growth anticipated over the next few years.

General and administrative (G&A) Expenses

General and administrative costs for the year ended December 31, 2004 were $1,088,000 compared to $619,000 for the corresponding period of 2003.

2004 costs include approximately $230,000 related to a development project in the oil and gas sector. Centrifuges is currently utilizing this knowledge to develop and pursue international applications focused on slop oil clean-up and environmental issues. No future benefit has been reflected in the accounts.

Other expense increases compared to the prior year include; additional marketing costs in Calgary and Ontario; further R&D efforts; and administration expenses associated with a publicly traded company. Overheads will continue to be scrutinized and reduced where possible while emphasizing market growth.

Stock based compensation costs reflect a calculation required by current accounting standards as outlined in the notes to the financial statements and do not have a cash effect.

Income tax and tax pools

Certain of the Corporation's subsidiaries have non-capital loss carry forward balances, which may be used to offset income of those subsidiaries in the future. Management will be cognisant of these available losses as we evaluate future opportunities. The total benefit of future reductions in tax expense through application of these losses could be in excess of $ 450,000. This benefit has not been recorded in the financial statements.

Inventory

The Corporation carries a significant inventory of new and refurbished centrifuges, parts, and related equipment, critical to its business philosophy. Parts account for a majority of the inventory and the Corporation will continue to invest in a parts inventory level providing marketing advantages and leading to increased sales of centrifuge machines and service. Immediate response is often a determining factor for many customers who rely on short downtime periods. While protecting this competitive position we are reviewing all specific inventory levels, historical utilization and reorder points with a view to reducing the total investment in inventory. Increases in inventories at December 31, 2004 compared to December 31, 2003 primarily reflect additional machine work-in-process related to future period sales.

Inventory is recorded at the lower of cost or net realizable value. Certain items are carried at low values reflecting lower turnover rates. Management feels that the cost and risk to the Corporation of relatively high inventory levels is more than offset by the substantial benefits provided. Inventory levels also reflect the need to service new products being introduced to our markets.

In addition to the inventories carried by Centrifuges, the Corporation has an arrangement with a related party providing a first right of refusal to acquire additional equipment as required. This supplementary equipment supply enhances our competitive position without increasing inventory carrying costs.

Contractual Obligations and Contingencies

The Corporation has no contractual obligations of significance other than those mentioned in the notes to the financial statements.

Impact of New Accounting Pronouncements

Effective January 1, 2004 the Corporation adopted the CICA handbook section 3870 Stock-Based Compensation and Other Stock-Based Payments. Under terms of the program, an expense is recorded related to the benefit of options issued under the Corporation's stock option plan during the period, using prescribed methods of calculation. For the year ended December 31, 2004, a related expense of $51,000 is reflected in the Statement of Loss. Reflection of the retroactive effect of adopting this policy on opening Retained Earnings is described in a note to the Financial Statements and the 2003 comparative accounts have been restated. It should be noted that these adjustments do not impact the Corporation's cash flow.

Related Party Transactions

Related party transactions are disclosed in the notes to the Financial Statements.

Outlook

Orders for centrifuge machines obtained during the first quarter of 2005 are quite encouraging and well ahead of the same period of 2004, although certain margins continue to reflect the introduction into new geographic areas and applications. Firm machine sales on order for 2005 already total in excess of $1,300,000, compared to total machine sales during 2004 of $1,561,000.

Expanded applications will include; refined systems for slop oil cleaning; waste water cleaning for food processing applications; new industry applications in Eastern Canada; concentration on Ontario industrial applications; and a renewed emphasis of support to the oil and gas industry. This diversification will further reduce the risk of reliance on the Corporation's traditional customer base.

Expanded geographic markets will include new areas of the United States, Africa and Saudi Arabia.

General business trends, as might affect the Corporation, have not changed significantly from our last report. Further strengthening of the Canadian dollar would be

expected to have a detrimental effect on sales to the United States and on potential sales where competition from US based companies is a factor.

Capital expenditure requirements for the core business are expected to be minimal during 2005.

We anticipate finalization of a service alliance with a U.S. manufacturer of very large centrifuge units for the mining industry. Under terms of the arrangement, we will supply parts, service and warranty support to new applications in Western Canada and will further represent that product line in the Canadian market. We will continue to develop strategic alliances that compliment our expertise.

As a public company, we are cognisant of the need to achieve growth, both internally via our traditional business and externally via acquisitions offering synergies with our primary business. At this time, the Corporation has not finalized any arrangements for funding sources in support of this expansion.

Additional Information

Additional information relating to Appulse Corporation can be accessed on SEDAR @ www.sedar.com

Appulse Corporation

Consolidated Financial Statements

December 31, 2004 and 2003

Collins Barrow
Chartered Accountants & Consultants

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Auditors' Report

To the Shareholders
Appulse Corporation

We have audited the consolidated balance sheets of Appulse Corporation as at December 31, 2004 and 2003 and the consolidated statements of loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Collins Barrow Calgary LLP"
CHARTERED ACCOUNTANTS

Calgary, Alberta
March 24, 2005

Appulse Corporation

Consolidated Balance Sheets

December 31, 2004 and 2003

	2004	2003 *(restated - note 3[h])*
Assets		
Current assets		
Cash	$ 75,654	$ 43,168
Accounts receivable	539,194	755,122
Note receivable (note 4)	18,892	43,137
Due from affiliated company (note 5)	-	162,442
Inventory	2,709,287	2,246,346
Prepaid expenses and deposits	119,027	145,576
Assets held for sale (note 18)	346,199	-
Income taxes receivable	28,561	-
	3,836,814	3,395,791
Property and equipment (note 6)	535,017	570,399
	$ 4,371,831	$ 3,966,190
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	$ 549,797	$ 544,956
Accounts payable and accrued liabilities	1,033,720	876,100
Income taxes payable	-	89,249
Obligation to issue share capital (note 12)	-	100,000
Due to affiliated companies (note 8)	23,883	88,810
Loans payable (note 9)	-	299,561
Deferred revenue	294,237	242,106
Current portion of long-term debt (note 10)	53,793	67,178
	1,955,430	2,307,960
Loans payable (note 9)	287,030	-
Long-term debt (note 10)	66,113	107,559
Convertible debentures (note 3[b] and note 13)	116,417	-
	2,424,990	2,415,519
Shareholders' Equity		
Share capital (note 12)	1,512,670	282,957
Convertible debentures (note 3[b] and note 13)	8,583	-
Contributed surplus (note 3[h])	199,892	149,372
Retained earnings	225,696	1,118,342
	1,946,841	1,550,671
	$ 4,371,831	$ 3,966,190

Approved by the Board,

(Signed) Douglas A. Baird, Director

(Signed) Robert D. Richards, Director

Appulse Corporation

Consolidated Statements of Loss and Retained Earnings

Years Ended December 31, 2004 and 2003

	2004	2003 *(restated - note 3[h])*
Revenue		
Service, rental and parts	$ 2,759,315	$ 2,532,911
Machine sales	1,561,350	913,452
Other	38,119	135
	4,358,784	3,446,498
Cost of sales	3,410,276	2,427,328
Gross margin	948,508	1,019,170
Expenses		
General and administrative	1,087,861	618,840
Stock-based compensation (note 3[h])	51,520	138,542
Interest on long-term debt	13,900	5,782
Amortization	140,564	121,294
	1,293,845	884,458
Income (loss) before the following	(345,337)	134,712
Gain (loss) on disposal of property and equipment	(2,104)	5,985
Income (loss) before income taxes (recovery)	(347,441)	140,697
Income taxes (recovery) - current (note 11[b])	(104,186)	113,369
- future	-	(1,398)
	(104,186)	111,971
Net income (loss) before discontinued operations	(243,255)	28,726
Discontinued operations (note 18)	(649,391)	-
Net income (loss)	(892,646)	28,726
Retained earnings, beginning of year		
As previously reported	1,267,714	1,100,446
Change in accounting policy (note 3[h])	149,372	10,830
As restated	1,118,342	1,089,616
Retained earnings, end of year	$ 225,696	$ 1,118,342
Net income (loss) per share - basic and diluted (note 12[h]) - continuing operations	$ (0.024)	$ 0.005
Net income (loss) per share - basic and diluted	$ (0.087)	$ 0.005

Appulse Corporation
Consolidated Statements of Cash Flows
Years Ended December 31, 2004 and 2003

	2004	2003
Operating activities		
Net income (loss) from continuing operations	$ (243,255)	$ 28,726
Items not affecting cash		
Stock-based compensation	51,520	138,542
Amortization	140,564	121,294
Gain (loss) on disposal of property and equipment	2,104	(5,985)
Future income tax recovery	-	(1,398)
	(49,067)	281,179
Changes in non-cash working capital	(192,536)	(384,112)
	(241,603)	(102,933)
Financing activities		
Proceeds from operating credit line, net	30,000	170,000
Proceeds from (repayments of) credit facility, net	(50,625)	75,400
Repayments to affiliated companies, net	(10,176)	(5,080)
Repayments of loans payable, net	(12,531)	(253,944)
Repayment of long-term debt, net	(63,331)	(58,030)
Proceeds from issuance of share capital	1,057,463	311,792
Proceeds from convertible debentures	125,000	-
Obligation to issue share capital	(100,000)	100,000
	975,800	340,138
Investing activities		
Note receivable advances	-	(43,137)
Repayments from (advances to) an affiliated company, net	162,442	(162,442)
Acquisition of property and equipment	(98,786)	(55,747)
Proceeds from disposal of property and equipment	-	43,538
Purchase of net assets on business combination (note 2)	(578,127)	(29,882)
Changes in non-cash working capital	25,000	(25,000)
	(489,471)	(272,670)
Discontinued operations		
Operating activities	(221,634)	-
Financing activities	(1,724)	-
Investing activities	(14,348)	-
	(237,706)	-
Cash inflow (outflow)	7,020	(35,465)
Bank indebtedness, beginning of year	(54,338)	(18,873)
Bank indebtedness, end of year	$ (47,318)	$ (54,338)
Bank indebtedness is comprised of:		
Cash	$ 75,654	$ 43,168
Current account overdraft (note 7)	(122,972)	(97,506)
	$ (47,318)	$ (54,338)
Supplemental cash flows information:		
Interest paid	$ 4,126	$ 5,782
Income tax payments	$ 13,624	$ 56,115
Non-cash transactions (note 19)		

1. Nature of operations

Appulse Corporation ("Appulse" and the "Corporation") through its wholly-owned subsidiaries sells new and refurbished centrifuge machines and parts, services and rebuilds centrifuge machines, and provides consulting and design services for a wide variety of industries throughout North America and internationally.

2. Acquisitions and subsequent disposal of a business

(a) NatureZo3ne Technologies Inc.

Pursuant to an Asset Purchase and Technology License Agreement ("the Agreement") dated April 1, 2004, NatureZo3ne Technologies Inc. ("NTI") purchased all of the equipment and inventory related to the water treatment business of Al Be Farm Research & Development Ltd. ("Al Be"). Consideration for the purchase consisted of 375,000 NTI shares. Contemporaneously with the closing of this acquisition, these 375,000 NTI shares were exchanged, on a one-for-one basis, for 375,000 Appulse common shares and 375,000 common share purchase warrants of Appulse exercisable at $1.25 per share until expiry on September 30, 2005. On closing, NTI became a wholly-owned subsidiary of Appulse. The business combination has been accounted for using the purchase method with the results of NTI's operations being included in the consolidated financial statements from April 1, 2004. The transaction was recorded based on fair value, which equalled the carrying value of NTI's net assets as follows:

Purchase price:

Cash	$ 603,127
375,000 common shares at an ascribed value of $0.25 per share	93,750
	$ 696,877

Net assets acquired:

Accounts receivable	$ 5,671
Inventory	216,387
Prepaid, deposits and other receivables	63,297
Property and equipment	198,870
Bank indebtedness	(3,918)
Accounts payable and accrued liabilities	(82,971)
Obligations under capital lease	(9,466)
Intangible assets	309,007
	$ 696,877

In addition, the Corporation acquired an exclusive technology license on the water treatment process for a period of one year, with annual options to extend for up to three years. Consideration for the purchase was 250,000 common shares of the Corporation.

On December 6, 2004, management and the Board of Directors determined that it was not in the best interests of the Corporation to renew the technology license related to the water treatment business scheduled for renewal on April 1, 2005. On February 25, 2005, the Corporation completed an agreement for the sale of the assets of the water treatment business. The assets were sold to the original operators of the water treatment business, pursuant to their right, as set out in the original purchase agreement dated April 1, 2004, to reacquire the equipment and inventories in the event that NTI discontinued operations. Consideration for the sale was 625,000 common shares of the Corporation and 375,000 common share purchase warrants of the Corporation, transferred to the Corporation for cancellation.

The results of operations of the water treatment business are disclosed as discontinued operations, including the impairment loss of the full carrying amount of the intangible assets of $309,007.

(b) Centrifuges Unlimited Inc.

Pursuant to a Share Purchase Agreement dated May 6, 2003, approved by the shareholders on August 27, 2003 and accepted by the TSX Venture Exchange on October 9, 2003, Appulse acquired all of the issued and outstanding shares of Centrifuges Unlimited Inc. ("Centrifuges") for consideration of the receipt of 5,000,000 common shares of Appulse. Subsequent to the share exchanges, the former shareholders of Centrifuges owned 57.4% of the issued and outstanding common shares of Appulse. As Appulse was formerly a CPC, this transaction has been treated as a reverse takeover of a non-operating public enterprise by Centrifuges and has been accounted for as a capital transaction. Accordingly, Centrifuges is deemed to have issued 1,855,000 common shares to acquire the net monetary assets of Appulse, accompanied by a recapitalization of Centrifuges upon the closing of the transaction. The recapitalization results in an increase to the number of outstanding common shares of Centrifuges of 4,355,000 common shares.

The transaction was non-arm's length as the two companies shared common shareholders and directors and was recorded based on fair value, which is equal to the carrying value, of Appulse's net assets. Since Centrifuges is the acquirer, the shareholder's equity accounts and comparative financial information reflected after the acquisition are those of Centrifuges.

The net assets of the Corporation received were as follows:

Cash	$ 311,792
Qualifying transaction costs	34,813
Accounts payable and accrued liabilities	(28,838)
	$ 317,767

(c) Orcan Oilfield Services Ltd.

Pursuant to a Share Purchase and Transfer Agreement dated August 1, 2003, Centrifuges acquired all of the issued and outstanding common and preferred shares of Orcan Oilfield Services Ltd. ("Orcan") and consequently Orcan's wholly-owned subsidiary Orcan Oilfield Services U.S. Inc. ("Orcan U.S."). The business combination has been accounted for using the purchase method with the results of Orcan's operations being included in the consolidated financial statements from August 1, 2003.

The cost of the acquisition has been allocated as follows:

Purchase price - cash	$ 30,000
Cash	$ 118
Property and equipment	150,000
Accounts payable and accrued liabilities	(120,118)
	$ 30,000

During the year ended December 31, 2003, Orcan changed its name to Rolyn Oilfield Services Ltd. ("Rolyn") and is continuing operations as a slop oil cleaning company. Also, Orcan U.S. changed its name to Rolyn Oilfield Services Inc. - U.S. ("Rolyn U.S.").

3. Accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, including Centrifuges, Rolyn, Rolyn U.S., ECO Rental & Leasing Ltd. ("ECO"), and NTI.

ECO was incorporated on February 3, 2004 and NTI was acquired on April 1, 2004.

(b) Convertible debentures

The liability component of the convertible debentures will be increased over its term to maturity by the difference between the amount recorded on issuance and the ultimately repayable amount, being the full face value, by a charge to interest expense.

(c) Inventory

Inventory is valued at the lower of cost and net realizable value, cost being determined on a weighted average basis for parts and the specific item basis for machine inventory.

(d) Amortization

Amortization on property and equipment and assets under capital lease is provided using the declining balance method at the following annual rates:

Shop equipment	20%
Rental equipment	20%
Furniture and fixtures	20%
Computers	45%
Vehicles	30%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(e) Revenue recognition

Machine and parts sales revenues are recognized when products are shipped to the customer. Customary sales terms are FOB shipping point. Service sales are recognized when services are completed. Rental revenue is recognized over the term of the rental period.

Amounts received or invoiced for machines ordered but not yet shipped to customers, machines that are currently in work-in-progress or parts shipped in advance of services being performed are accounted for as deferred revenue.

(f) Translation of foreign currencies

The Corporation follows the temporal method when translating foreign currency transactions and the financial statements of its integrated subsidiaries whereby:

(i) monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date.

(ii) non-monetary assets and liabilities are translated at historical exchange rates in effect when the assets were acquired or liabilities incurred.

(iii) income and expense items, except amortization, are translated at the average exchange rates for the year.

(iv) exchange gains or losses arising from the translation of foreign currency denominated transactions are included in the determination of net income.

(v) amortization is translated using the same rates as the assets to which they relate.

(g) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(h) Stock-based compensation

Effective January 1, 2004, the Corporation adopted retroactively with restatement the Canadian Institute of Chartered Accountants Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments". This section applies to all stock-based compensation granted to employees, directors and officers on or after January 1, 2002. Stock options granted to employees, directors and officers on or after January 1, 2002 are accounted for using the fair value method. Compensation expense is amortized over the vesting period of options, with a corresponding increase in contributed surplus. Any consideration paid by employees, directors and officers on exercise of stock options will be credited to share capital. Prior to January 1, 2004, the Corporation used the intrinsic value method in accounting for stock options granted to employees, directors and officers.

The effect of this change in accounting policy on the consolidated financial statements is as follows:

	2004	2003
Consolidated Balance Sheet		
Increase in contributed surplus	$ 199,892	$ 149,372
Decrease in retained earnings	(199,892)	(149,372)

The above figures for 2004 reflect an allocation of share issuance costs of $1,000 for the issuance of stock options.

	2004	2003
Consolidated Statement of Loss and Retained Earnings		
Decrease in opening retained earnings	$ 149,372	$ 10,830
Stock-based compensation expense, being an increase in net loss (2003 - decrease in net income)	$ 51,520	$ 138,542
Decrease in net income (increase in net loss) per share:		
Basic	$ (0.01)	$ 0.024
Diluted	$ (0.01)	$ 0.022

(i) Diluted income per share

Diluted income per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of in-the-money stock options are used by the Corporation to repurchase Corporation common shares at the weighted average market price during the year.

(j) Measurement uncertainty

The valuation of inventory at the lower of cost and net realizable value is based on management's best estimates of future recoverability. The valuation of property and equipment is based on management's best estimates of the future recoverability of these assets and the determination of costs subject to classification as property and equipment. The valuation of assets held for sale is based on inventory cost net of write-downs to net realizable value, and asset cost net of accumulated amortization, which represents management's best estimates of future recoverability assuming continuing operations of the water treatment business. Amounts recorded for amortization of property and equipment are based on management's best estimates of remaining useful lives and period of future benefit of the related assets.

Amounts used to calculate the fair value of stock options issued and the resulting stock-based compensation expense and the equity component of the convertible debenture are based on estimates of the future volatility of the Corporation's share price, expected lives of the options, expected dividends and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

4. Note receivable

The note receivable, denominated in U.S. dollars, is unsecured, bears interest at the Royal Bank of Canada U.S. prime rate plus 3% per annum and is due on demand. During the year ended December 31, 2004, the Corporation provided an allowance of $24,245 to reduce the amount to net realizable value.

5. Due from affiliated company

The amount due from a company, affiliated by virtue of being controlled by two of the Corporation's directors, is unsecured, non-interest bearing and due on demand.

6. Property and equipment

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Shop equipment	$ 251,395	$ 139,992	$ 111,403	$ 224,270	$ 116,834	$ 107,436
Rental equipment	289,900	73,035	216,865	231,077	26,171	204,906
Furniture and fixtures	53,021	37,452	15,569	48,459	31,624	16,835
Computers	64,232	43,646	20,586	58,525	36,517	22,008
Vehicles	389,353	247,614	141,739	361,585	198,771	162,814
Leasehold improvements	29,751	15,728	14,023	20,877	6,158	14,719
	1,077,652	557,467	520,185	944,793	416,075	528,718
Assets under capital lease						
Shop equipment	17,478	2,646	14,832	67,800	28,747	39,053
Furniture and fixtures	-	-	-	4,563	1,935	2,628
	17,478	2,646	14,832	72,363	30,682	41,681
	$ 1,095,130	$ 560,113	$ 535,017	$ 1,017,156	$ 446,757	$ 570,399

7. Bank indebtedness

	2004	2003
Current account overdraft	$ 122,972	$ 97,506
Operating credit line	260,000	230,000
Demand revolving reducing credit facility	166,825	217,450
	$ 549,797	$ 544,956

The Corporation has a demand operating credit line to a maximum of $600,000, subject to certain margin requirements, which bears interest at the lender's prime rate plus 1% per annum; a demand revolving operating credit facility to a maximum of $40,500 which bears interest at the lender's U.S. base rate plus 1.50% per annum, which was not utilized at December 31, 2004 or December 31, 2003; and a demand revolving reducing credit facility available to a maximum of $250,000 designated for equipment purchases, repayable in monthly instalments of $6,575 plus interest at the lender's prime rate plus 1.25% per annum. Security for all bank indebtedness consists of a general security agreement covering all of the Corporation's assets.

Estimated principal payments due on the demand revolving reducing credit facility are as follows:

2005	$ 78,900
2006	55,350
2007	29,500
2008	3,075
	$ 166,825

8. Due to affiliated companies

The amount due to affiliated companies by virtue of being controlled or partially owned by a director of the Corporation, is unsecured, non-interest bearing and due on demand.

9. Loans payable

The loans payable to a director and shareholder of the Corporation are unsecured and non-interest bearing. During 2004, the lender agreed to accept repayment by December 31, 2006.

10. Long-term debt

	2004	**2003**
Finance contracts, bearing interest at a weighted average rate of 1.88% per annum, with principal and interest repayments of $4,463 per month and maturities ranging from May 2005 to November 2008, secured by vehicles	$ 104,433	$ 155,375
Capital lease obligations related to shop equipment bearing interest at a weighted average rate of 9.78% per annum, maturing March 2006 to March 2007, secured by specific equipment	15,473	19,362
	119,906	174,737
Less: Portion due within one year	53,793	67,178
	$ 66,113	$ 107,559

Estimated principal payments due are as follows:

2005	$ 53,793
2006	31,455
2007	21,494
2008	13,164
	$ 119,906

Minimum lease payments required on the capital lease obligations are as follows:

	Minimum Lease Payments	Imputed Interest	Obligation
2005	$ 9,764	$ 1,266	$ 8,498
2006	5,723	673	5,050
2007	1,994	69	1,925
	17,481	2,008	15,473
	$ 17,481	$ 2,008	$ 15,473

11. Income taxes

(a) Significant components of the future income tax asset (liability) at December 31, 2004 and 2003 are as follows:

	2004	2003
Net book value of property and equipment in excess of tax basis	$ (2,395)	$ (6,409)
Eligible capital property	8,531	9,172
Share issuance costs	23,933	34,581
Non-capital loss carryforwards	466,140	369,883
Valuation allowance	(496,209)	(407,227)
Recognized future tax asset (liability)	$ -	$ -

(b) Current income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 33.87% (2003 - 36.83%) to income (loss) before income taxes as follows:

	2004	**2003** *(restated)*
Continuing operations		
Expected current income tax expense (recovery) on continuing operations	$(117,655)	$ 51,819
Increase (decrease) resulting from:		
Stock-based compensation	17,450	51,025
Tax rate reductions	-	(1,381)
Future income tax benefit not recognized	(5,728)	7,128
Other	1,747	3,380
Income tax expense (recovery)	$(104,186)	$ 111,971

	2004	**2003** *(restated)*
Discontinued operations		
Expected income tax recovery	$(219,948)	$ -
Future income tax benefit not recognized	219,948	-
Income tax expense (recovery)	$ -	$ -

(c) The Corporation has available the following estimated non-capital loss carryforwards for which no benefit has been recognized in the consolidated financial statements.

Amount	**Year of Expiry**
$ 287,222	2006
209,596	2007
297,487	2008
85,487	2009
9,961	2010
29,039	2011
18,086	2012
417,258	2014
$ 1,354,136	

12. Share capital

(a) Authorized

Unlimited number of voting common shares
Unlimited number of preferred shares, issuable in series

(b) Issued

	2004		2003	
Common shares	**Number**	**Stated Value**	**Number**	**Stated Value**
Balance, beginning of year	8,710,000	$ 282,957	2,500,000	$ 3
Deemed issued to acquire assets (note 2[b])	-	-	1,855,000	317,767
Deemed adjustment for recapitalization (note 2[b])	-	-	4,355,000	-
Private placement (note 12[c])	1,336,000	1,068,800	-	-
On acquisition of NatureZo3ne Technologies Inc. (note 2[a])	375,000	93,750	-	-
On acquisition of a license (note 12[d])	250,000	62,500	-	-
Exercise of stock options (note 12[e])	100,000	16,000	-	-
	10,771,000	1,524,007	8,710,000	317,770
Less: Share issue costs		11,337		34,813
Balance, end of year		$ 1,512,670		$ 282,957

(c) Pursuant to a private placement agreement that closed on March 31, 2004, the Corporation issued 1,336,000 units at $0.80 per unit for total proceeds of $1,068,800. Of this amount, $100,000 was received prior to December 31, 2003. Each unit consisted of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional common share at an exercise price of $1.25 per share on or before September 30, 2005. At December 31, 2004, all 1,336,000 Warrants were outstanding.

(d) On April 1, 2004, pursuant to the Agreement (note 2), the Corporation issued 250,000 common shares at an ascribed value of $0.25 per share to Al Be as consideration for an exclusive technology license for a period of one year with annual options to extend for up to three years.

(e) Pursuant to an Agency Agreement dated November 15, 2002, Octagon Capital Corporation (the "Agent") was granted a non-transferable option to purchase 200,000 common shares at $0.15 per share until expiry on September 3, 2004. During 2004, 100,000 common shares were issued to the Agent at $0.15 per share upon the exercise of the remaining 100,000 options. Share issuance costs of $1,000 are included in the stated value of the issued shares.

(f) Subsequent to year-end, pursuant to an agreement dated February 25, 2005, 625,000 common shares and 375,000 common share purchase warrants were transferred to the Corporation as consideration for the sale of the equipment and inventories and technology license (note 2).

(g) Pursuant to escrow agreements, 6,610,000 of the common shares are held in escrow and are releasable as to 10% immediately and 15% on each of the six, twelve, eighteen, twenty-four, thirty and thirty-six month anniversaries following the initial release. No shares have been released to December 31, 2004. No applications to release shares held in escrow have been made by management to December 31, 2004.

(h) Net loss per share

Net loss per share has been calculated using the weighted average number of common shares outstanding during the year of 10,221,123 (2003 - 5,843,644). The conversion of the debentures or the exercise of options and warrants would not be dilutive for the year ended December 31, 2004. For the year ended December 31, 2003, in calculating diluted net income per share, 384,046 common shares were added to the denominator for the dilutive effect of stock options.

13. Convertible debentures

During the year, the Corporation approved the issuance of up to a maximum of $500,000 in subordinated convertible redeemable debentures. To December 31, 2004, the Corporation issued $100,000 in debentures to directors of the Corporation and $25,000 in debentures to a third party. The debentures have a first charge on assets subordinate only to the senior indebtedness of the Corporation and bear interest at 12% per annum payable quarterly. The debentures have a five-year term unless the Corporation extends the term by two years at the expiry of the initial term. The Corporation may redeem the debentures at any time from and after December 31, 2004. The holder has the option to convert any portion of the principal and any unpaid interest into common shares of the Corporation at the rate of one common share for each $1.50 of principal and unpaid interest for the first twenty-four months after the issuance of the debentures and at the rate of one common share for each $2.50 of principal and unpaid interest for the remainder of the term.

As the debentures can be converted at the option of the holder through the issuance of common shares, the debentures obligation was classified partially as a liability and partially as a component of shareholders' equity. The liability component was calculated as the present value of the principal and the required interest payments discounted (for the five-year term to maturity) at an interest rate of 14% per annum, approximating what would have been applicable to non-convertible subordinated debt at the time the debentures were issued as follows:

Issue price	$ 125,000
Liability component	116,417
Net amount classified as shareholders' equity at issuance	$ 8,583

14. Stock-based compensation

(a) The Corporation has a stock option plan under which directors, officers and employees are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Corporation at the time of granting of the options. Options granted under the plan generally have a term of five years but may not exceed five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) upon which the Corporation's common shares are then listed.

A summary of the status of the Corporation's stock option plan as at December 31, 2004 and 2003 and changes during the years ending on those dates is as follows:

	2004		2003	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	819,000	$ 0.26	361,000	$ 0.15
Granted	25,000	0.25	458,000	0.35
Expired	(96,303)	(0.15)	-	-
Outstanding, end of year	747,697	$ 0.29	819,000	$ 0.26
Exercisable, end of year	519,697	$ 0.25	611,000	$ 0.23

(b) The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

Exercise Prices	Number Outstanding at December 31, 2004	Weighted Average Remaining Contractual Life	Number Exercisable at December 31, 2004	Weighted Average Remaining Contractual Life
$ 0.15	264,697	2.16 years	264,697	2.16 years
0.35	458,000	3.65	250,000	3.65
0.75	25,000	4.13	5,000	4.13
	747,697	3.14 years	519,697	2.90 years

(c) The fair value of stock options granted during 2004 and 2003 was estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	2004	2003
Expected life (years)	5	5
Risk-free interest rate (%)	3.48	3.97
Expected volatility (%)	50	50
Fair value options granted ($/share)	0.25	0.59

(d) During the year ended December 31, 2004, compensation costs of $51,520 (2003 - $138,542) have been expensed with an offsetting increase in contributed surplus.

15. Segmented information

The Corporation's products and services, as described in note 1, are marketed to a global customer base differentiated primarily by geographic region.

Revenue is analyzed geographically as follows:

	2004	2003
Revenue by geographic area		
Canada	$ 3,002,971	$ 2,630,790
International	1,355,813	815,708
	$ 4,358,784	$ 3,446,498

16. Lease commitments

The Corporation is committed under leases on premises which expire May 31, 2005 and August 31, 2006. The leases require the Corporation to pay a base rent plus its share of operating costs. Minimum annual lease payments exclusive of operating costs for the next two years are as follows:

2005	$ 94,514
2006	58,676
	$ 153,190

17. Related party transactions

The Corporation is related to certain companies which are controlled by related persons or under common control. During the year, the Corporation entered into certain transactions with these related parties.

(a) Service, rental and parts revenue includes $9,946 (2003 - $48,572) for sales and services provided to a company significantly influenced by a director of the Corporation, of which $563 (2003 - $8,808) remains in accounts receivable.

(b) Cost of sales includes purchases of $42,272 (2003 - $70,497) from a company significantly influenced by a director of the Corporation, of which $4,287 (2003 - $12,446) remains in accounts payable and accrued liabilities.

(c) Cost of sales includes purchases of $56,924 (2003 - $19,544) from a company controlled by shareholders that are immediate family members of a director of the Corporation, of which and $80,453 (2003 - $19,544) remains in accounts payable and accrued liabilities. Purchases are pursuant to an agreement whereby the related party supplies used parts and equipment in exchange for a fixed percentage of sales.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

(b) Credit risk

The concentration of credit risk in accounts receivable has been reduced due to an expanding number of customers and improved credit procedures. The Corporation performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable to certain customers, historical trends and other relevant information.

(c) Interest rate risk

The Corporation is exposed to interest rate cash flow risk to the extent that the operating credit line and credit facility bear interest at floating rates.

The Corporation is exposed to interest rate price risk to the extent that long-term debt bears interest at fixed rates.

(d) Foreign currency risk

The Corporation is exposed to currency price risk on sales denominated in U.S. dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on purchases of inventory for sale to the extent that the payment of the U.S. denominated accounts payable are subject to fluctuations in the foreign exchange rate, and on the note receivable denominated in U.S. dollars.

21. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

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